

MIKADO TOWNSHIP, ALCONA COUNTY

MIKADO, MICHIGAN

MARCH 31, 2008

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

MARCH 31, 2008

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November 5, 2008

INDEPENDENT AUDITORS' REPORT

To the Township Board
Mikado Township
Alcona County
Mikado, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Mikado Township, Alcona County, Mikado, Michigan, as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Mikado Township, Alcona County, Mikado, Michigan, as of March 31, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages iii through ix and budgetary comparison information on page 19 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mikado Township, Alcona County, Mikado, Michigan's basic financial statements. The individual fund financial statements and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

Mikado Township, a general law township located in Alcona County has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Mikado Township board's discussion and analysis of the financial results for the fiscal year ended March 31, 2008.

Financial Highlights

- ◆ The assets of the Township exceeded its liabilities at the close of the fiscal year by \$452,741. Of this amount, \$119,809 may be used to meet the Township's ongoing obligations to citizens and creditors.
- ◆ As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$297,527. \$120,317 is available for spending at the Township's discretion.
- ◆ The Township's total debt decreased by \$11,420 during the fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Township's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *Statement of Activities* presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Township's that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are “measurable” and “currently available” are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary Funds – Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township does not maintain any proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Township’s financial position over time. The Net Assets of the Township were \$452,741 at March 31, 2008, meaning the Township’s assets were greater than its liabilities by this amount.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

Mikado Township
Net Assets as of March 31, 2008

	Governmental
Assets	Activities
Current Assets	<u>\$ 301,435</u>
Non Current Assets	
Capital Assets	465,081
Less: Accumulated Depreciation	<u>243,784</u>
Total Non Current Assets	<u>221,297</u>
Total Assets	<u><u>\$ 522,732</u></u>
Liabilities	
Current Liabilities	\$ 16,367
Non Current Liabilities	<u>53,624</u>
Total Liabilities	<u>69,991</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	155,722
Restricted for Specific Purposes	177,210
Unrestricted	<u>119,809</u>
Total Net Assets	<u><u>452,741</u></u>
Total Liabilities and Net Assets	<u><u>\$ 522,732</u></u>

The most significant portions of the Township's Net Assets are cash and investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others) less any related debt that is outstanding that the Township used to acquire the asset. The Township has \$119,809 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by Township policies regarding their use.

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net assets for the government as a whole, as well as for its separate governmental activities.

The total net assets of the Township increased by \$33,973 in this fiscal year, which is an indicator that the Township experienced positive financial growth during the year. As a result, the Township ended the fiscal year in better condition than when the year began.

The following table illustrates and summarizes the results of the changes in the net assets for the Township. The condensed information was derived from the government-wide Statement of Activities.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

Mikado Township
Change in Net Assets
for the Fiscal Year Ended March 31, 2008

	<u>Governmental Activities</u>
<u>Revenues</u>	
Program Revenues	
Charges for Services	\$ 17,640
Operating Grants and Contributions	14,845
Capital Grants and Contributions	3,794
General Revenues	
Property Taxes	127,743
State Grants	71,357
Interest Earnings	6,661
Other	<u>6,508</u>
Total Revenues	<u>248,548</u>
<u>Expenses</u>	
Legislative	25,361
General Government	72,421
Public Safety	67,265
Public Works	41,620
Community and Economic Development	2,947
Recreational and Cultural	1,760
Other Functions	<u>3,201</u>
Total Expenses	<u>214,575</u>
Change in Net Assets	33,973
<u>NET ASSETS</u> – Beginning of Year	<u>418,768</u>
<u>NET ASSETS</u> – End of Year	<u><u>\$ 452,741</u></u>

Governmental Activities

During the fiscal year ended March 31, 2008, the Township's net assets increased by \$33,973 in the governmental activities. The majority of this increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses. This is true despite the fact that GASB 34 now requires the Township to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

The most significant portion of the revenue for all governmental activities of Mikado Township comes from property taxes. The Township levied a millage for road maintenance and fire protection, in addition to the operating millages, this fiscal year. The Township levied 0.5992 mills for operating purposes, 1.9654 mills for road maintenance, and 0.9645 mills for fire protection.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax.

The Township's governmental activities expenses are dominated by general government expenses. The Township spent \$72,421 in fiscal year 2008 on general government expenses. Public safety represented the next largest expense at \$67,265. Depreciation expense added \$3,299 in general government expense and \$29,210 in public safety expense.

Business-Type Activities

The Township does not maintain any Business-Type Activities.

Financial Analysis of the Government's Funds

Governmental Funds The focus of Mikado Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, Mikado Township's governmental funds reported combined ending fund balances of \$297,527. \$120,317 constitutes unreserved fund balance. The remainder of the fund balance is reserved for specific purposes and is therefore not available for new appropriation. For example, the fund balance that is reserved for road maintenance must be used for expenditures that relate to road maintenance.

General Fund – The General Fund decreased its fund balance by \$278 which brings the fund balance to \$110,317. The General Fund's fund balance is unreserved. All of the General Fund's functions, except for Cemetery ended the year with expenditures below budgeted amounts. The differential was funded by available fund balance and greater than anticipated revenues. Taxes amounted to \$35,402. State shared revenues were collected in the amount of \$71,357.

Road Fund – The Road Fund increased its fund balance by \$36,605 which brings the fund balance to \$104,437. This balance is reserved and must be used for road maintenance. Taxes amounted to \$61,944.

Fire Fund – The Fire Fund increased its fund balance by \$16,290 which brings the fund balance to \$72,773. Taxes amounted to \$30,397. \$15,000 of expenditures was for debt service.

Budget Stabilization Fund – The Budget Stabilization Fund fund balance remained the same at \$10,000.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

Proprietary Fund – The Township does not maintain any proprietary funds.

Capital Assets and Debt Administration

Capital Assets. The Township's investment in capital assets for governmental activities as of March 31, 2008, amounted to \$221,297 net of accumulated depreciation. The Township's investment in capital assets for the current fiscal year was \$2,356.

Capital assets summarized below include any items purchased with a cost greater than \$1,000 individually or \$2,500 individually in the fire department and that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

Mikado Township
Capital Assets as of March 31, 2008

	<u>Governmental Activities</u>
Land	\$ 17,189
Land Improvements	5,300
Buildings	108,851
Machinery and Equipment	<u>333,741</u>
	465,081
Less Accumulated Depreciation	<u>243,784</u>
Net Capital Assets	<u><u>\$ 221,297</u></u>

Major capital asset events during the current fiscal year included:

- The Township purchased fire equipment at a cost of \$2,356.

Long-Term Debt. At the end of the current fiscal year, the Township had total installment debt outstanding of \$65,575. The entire balance of this debt is backed by the full faith and credit of the government. Additional information on the Township's long-term debt can be found in the notes to the financial statements.

Economic Condition and Outlook

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means potential further reductions. The Township's millage rate was reduced again by the Headlee Amendment rollback.

These factors were considered in preparing the Township's budgets for the 2008-09 fiscal year.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact the Mikado Township Clerk at P.O. Box 66, Mikado, Michigan 48745-0066.

MIKADO TOWNSHIP, ALCONA COUNTY

MIKADO, MICHIGAN

STATEMENT OF NET ASSETS

MARCH 31, 2008

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 268,400
Taxes Receivable	16,071
Due from Other Governments	16,843
Due from External Parties (Fiduciary Fund)	121
Total Current Assets	<u>301,435</u>
<u>CAPITAL ASSETS</u>	
Land	17,189
Land Improvements	5,300
Buildings	108,851
Machinery and Equipment	333,741
	<u>465,081</u>
Less Accumulated Depreciation	243,784
Net Capital Assets	<u>221,297</u>
TOTAL ASSETS	<u><u>\$ 522,732</u></u>
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	\$ 3,640
Payroll Taxes and Withholdings	268
Accrued Interest Payable	508
Current Portion of Contract Payable	11,951
Total Current Liabilities	<u>16,367</u>
<u>NON-CURRENT LIABILITIES</u>	
Contract Payable	65,575
Less: Current Portion	(11,951)
Total Non-Current Liabilities	<u>53,624</u>
Total Liabilities	<u>69,991</u>
<u>NET ASSETS</u>	
Invested in Capital Assets Net of Related Debt	155,722
Restricted for Road Maintenance	104,437
Restricted for Fire Protection	72,773
Unrestricted	119,809
TOTAL NET ASSETS	<u><u>\$ 452,741</u></u>

The accompanying notes are an integral part of the financial statements.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2008

					NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS TOTAL GOVERNMENTAL ACTIVITIES
FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
<u>PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES</u>					
Legislative	\$ 25,361	\$ 0	\$ 0	\$ 0	\$ (25,361)
General Government	72,421	10,870	0	0	(61,551)
Public Safety	67,265	6,150	863	2,919	(57,333)
Public Works	41,620	0	13,982	0	(27,638)
Community and Economic Development	2,947	620	0	0	(2,327)
Recreation and Cultural	1,760	0	0	875	(885)
Other Functions	3,201	0	0	0	(3,201)
Total Governmental Activities	<u>\$ 214,575</u>	<u>\$ 17,640</u>	<u>\$ 14,845</u>	<u>\$ 3,794</u>	<u>(178,296)</u>
<u>GENERAL REVENUES</u>					
Property Taxes					127,743
State Grants					71,357
Interest Earnings					6,661
Other					6,508
Total General Revenues					<u>212,269</u>
Change in Net Assets					33,973
<u>NET ASSETS</u> - Beginning of Year					<u>418,768</u>
<u>NET ASSETS</u> - End of Year					<u>\$ 452,741</u>

The accompanying notes are an integral part of the financial statements.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET
MARCH 31, 2008

	GENERAL FUND	ROAD FUND	FIRE FUND	BUDGET STABILIZATION FUND	TOTALS
<u>ASSETS</u>					
Cash	\$ 94,533	\$ 95,486	\$ 68,381	\$ 10,000	\$ 268,400
Taxes Receivable	2,728	8,951	4,392	0	16,071
Due from Other Governments	16,843	0	0	0	16,843
Due from Other Funds	121	0	0	0	121
TOTAL ASSETS	<u>\$ 114,225</u>	<u>\$ 104,437</u>	<u>\$ 72,773</u>	<u>\$ 10,000</u>	<u>\$ 301,435</u>
<u>LIABILITIES AND FUND BALANCE</u>					
<u>LIABILITIES</u>					
Accounts Payable	\$ 3,640	\$ 0	\$ 0	\$ 0	\$ 3,640
Payroll Taxes and Withholdings	268	0	0	0	268
Total Liabilities	<u>3,908</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,908</u>
<u>FUND BALANCE</u>					
Reserved for:					
Road Maintenance	0	104,437	0	0	104,437
Fire Protection	0	0	72,773	0	72,773
Unreserved					
Undesignated	110,317	0	0	10,000	120,317
Total Fund Balance	<u>110,317</u>	<u>104,437</u>	<u>72,773</u>	<u>10,000</u>	<u>297,527</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 114,225</u>	<u>\$ 104,437</u>	<u>\$ 72,773</u>	<u>\$ 10,000</u>	<u>\$ 301,435</u>

The accompanying notes are an integral part of the financial statements.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
MARCH 31, 2008

Total Fund Balances for Governmental Funds	\$ 297,527
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Amounts Reported for Governmental Activities in the
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the funds.

Land	\$ 17,189	
Land Improvements	5,300	
Buildings	108,851	
Machinery and Equipment	333,741	
Accumulated Depreciation	<u>(243,784)</u>	221,297

Long term liabilities are not due and payable in the current period
and are not reported in the funds

Contract Payable		(65,575)
Accrued Interest Payable		<u>(508)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u><u>452,741</u></u>
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The accompanying notes are an integral part of the financial statements.

MIKADO TOWNSHIP, ALCONA COUNTY

MIKADO, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31, 2008

	GENERAL FUND	ROAD FUND	FIRE FUND	BUDGET STABILIZATION FUND	TOTALS
<u>REVENUES</u>					
Taxes	\$ 35,402	\$ 61,944	\$ 30,397	\$ 0	\$127,743
Licenses and Permits	620	0	0	0	620
Federal Grants	1,419	10,997	0	0	12,416
State Grants	75,205	0	0	0	75,205
Charges for Services	11,385	0	0	0	11,385
Interest and Rents	8,668	1,885	1,349	394	12,296
Other Revenues	8,883	0	0	0	8,883
Total Revenues	141,582	74,826	31,746	394	248,548
<u>EXPENDITURES</u>					
Legislative	25,361	0	0	0	25,361
General Government	69,122	0	0	0	69,122
Public Safety	36,464	0	15,456	0	51,920
Public Works	3,399	38,221	0	0	41,620
Community and Economic Development	2,947	0	0	0	2,947
Recreation and Cultural	1,760	0	0	0	1,760
Other Functions	3,201	0	0	0	3,201
Total Expenditures	142,254	38,221	15,456	0	195,931
Excess (Deficiency) of Revenues Over Expenditures	(672)	36,605	16,290	394	52,617
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfer In	394	0	0	0	394
Transfer Out	0	0	0	(394)	(394)
Total Other Financing Sources (Uses)	394	0	0	(394)	0
Net Change in Fund Balance	(278)	36,605	16,290	0	52,617
<u>FUND BALANCE</u> - Beginning of Year	110,595	67,832	56,483	10,000	244,910
<u>FUND BALANCE</u> - End of Year	\$110,317	\$ 104,437	\$ 72,773	\$ 10,000	\$297,527

The accompanying notes are an integral part of the financial statements.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
MARCH 31, 2008

Net Change in Fund Balance - Total Governmental Funds	\$ 52,617
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	(32,509)
Capital Outlay	2,356
Accrued interest on notes payable is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid.	
Accrued Interest Payable - Beginning of Year	597
Accrued Interest Payable - End of Year	(508)
Repayments of principal on long-term debt is an expenditure in the governmental fund, but not in the statement of activities (where it is a reduction of liabilities).	<u>11,420</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 33,973</u></u>

The accompanying notes are an integral part of the financial statements.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS AND LIABILITIES
MARCH 31, 2008

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash	\$ 121
	<hr/> <hr/>
<u>LIABILITIES</u>	
Due to Other Funds	\$ 121
	<hr/> <hr/>

The accompanying notes are an integral part of the financial statements.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Mikado Township is a general law township located in Alcona County which operates under the direction of an elected township board. Under the criteria established by accounting principles generally accepted in the United States of America, the Township has determined that there are no component units which should be included in its reporting entity.

B. Government-Wide and Fund Financial Statements

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Township as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Township are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Mikado Township reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Fire Fund* accounts for revenue sources that are legally restricted to expenditure for fire protection.

The *Road Fund* accounts for revenue sources that are legally restricted to expenditure for road maintenance.

The *Budget Stabilization Fund* accounts for revenue sources that are legally restricted to stabilizing the budget.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

Additionally, Mikado Township reports the following fund types:

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the Township holds for others in an agency capacity.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

The investment policy adopted by the Township states that the treasurer may invest Township funds in certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank but only if the bank, savings and loan association, or credit union meets all criteria as a depository of public funds contained in state law.

2. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable operating lien on the property as of the date they are levied. State education taxes and county taxes are levied and due July 1, and become delinquent after September 14. The remaining millages are levied and due December 1, and become delinquent after February 14. Collections of taxes and remittances of them are accounted for in the Current Tax Collection Fund. Township property tax revenues are recognized when they become both measurable and available for use to finance Township operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

The 2007 taxable valuation of Mikado Township totaled \$31,360,257, on which ad valorem taxes levied consisted of 0.5992 mills for Mikado Township operating purposes, 1.9654 mills for Mikado Township road maintenance, and 0.9645 mills for Mikado Township fire protection. These levies raised approximately \$18,767 for operating purposes, \$61,571 for road maintenance, and \$30,213 for fire protection.

3. *Inventories and Prepaid Items*

Inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 (amount not rounded) in the fire department and \$1,000 (amount not rounded) for all others and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Building improvements	20
Land improvements	20
Public domain infrastructure	50
Vehicles	10
Equipment and Furniture	5-10

5. *Long-term Obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The annual budget is adopted on the modified accrual basis in accordance with the requirements of Michigan Public Act 621 of 1978 "The Uniform Budgeting and Accounting Act". A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budget amounts are as originally adopted on March 12, 2007, or as amended by the Township Board from time to time throughout the year.

The appropriated budget is prepared by fund and activity. The Township Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Township because it is, at present, not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

B. Funds with expenditures in excess of appropriations were as follows:

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
General Fund		
Cemetery	\$ 6,115	\$ 6,227
Fire Fund	15,000	15,456

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

These overages were funded by available fund balance and greater than anticipated revenues.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The Township's deposits are owned by several of the Township's funds. Bank deposits are in Huron Community Bank, Lincoln, Michigan and Northland Area Federal Credit Union, Oscoda, Michigan.

Investment rate risk. The Township will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Township's cash requirement.

Foreign currency risk. The Township is not authorized to invest in investments which have this type of risk.

Credit risk. The Township will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Township's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Township will do business in accordance with the Township's investment policy.

Concentration of credit risk. The Township will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2008, none of the government's bank balance of \$290,098 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township's investments are categorized to give an indication of the level of risk assumed by the Township at year end. Category 1 includes investments that are insured or registered, or securities held by the Township or the Township's agent in the Township's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Township's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Township's name. At year end, the Township held no investments.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

B. Receivables

Receivables as of year end for the government's individual major funds are as follows:

	General	Road	Fire	Total
Receivables				
Taxes	\$ 2,728	\$ 8,951	\$ 4,392	\$ 16,071
Due from Other Governments	16,843	0	0	16,843
Total	<u>\$ 19,571</u>	<u>\$ 8,951</u>	<u>\$ 4,392</u>	<u>\$ 32,914</u>

The allowance for doubtful accounts is not considered to be material for disclosure.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

C. Capital Assets

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital assets, not being depreciated				
Land	\$ 17,189	\$ 0	\$ 0	\$ 17,189
Capital assets, being depreciated				
Land Improvements	5,300	0	0	5,300
Buildings	108,851	0	0	108,851
Machinery and Equipment	331,385	2,356	0	333,741
Total capital assets, being depreciated	<u>445,536</u>	<u>2,356</u>	<u>0</u>	<u>447,892</u>
Less accumulated depreciation for:				
Land Improvements	375	265	0	640
Buildings	104,753	637	0	105,390
Machinery and Equipment	106,147	31,607	0	137,754
Total accumulated depreciation	<u>211,275</u>	<u>32,509</u>	<u>0</u>	<u>243,784</u>
Total capital assets being depreciated, net	<u>234,261</u>	<u>(30,153)</u>	<u>0</u>	<u>204,108</u>
Governmental activities capital assets, net	<u>\$ 251,450</u>	<u>\$ (30,153)</u>	<u>\$ 0</u>	<u>\$ 221,297</u>

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

General Government	\$ 3,299
Public Safety	29,210
	<u>\$ 32,509</u>

Construction Commitments:

The government has one outstanding construction commitment of \$12,038 as of March 31, 2008, with the Alcona County Road Commission for road construction.

D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at March 31, 2008, were:

<u>Fund</u>	<u>INTERFUND RECEIVABLES DUE FROM'S</u>	<u>INTERFUND PAYABLES DUE TO'S</u>
General Fund	\$ 121	\$ 0
Fiduciary Fund		
Current Tax Collection Fund	0	121
	<u>\$ 121</u>	<u>\$ 121</u>

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All are expected to be resolved within one year.

Interfund transfers as of March 31, 2008, were:

	<u>TRANSFERS IN</u>	<u>OUT</u>
<u>Primary Government</u>		
General Fund	\$ 394	\$ 0
Budget Stabilization Fund	0	394
	<u>\$ 394</u>	<u>\$ 394</u>

Transfers are used (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

E. Long-Term Debt

The following is a summary of the long-term debt transactions of the Township of Mikado for the year ended March 31, 2008:

	<u>CONTRACTS PAYABLE</u>
Long-Term Debt Payable at April 1, 2007	\$ 76,995
New Debt Incurred	0
Payments on Debt	<u>(11,420)</u>
LONG-TERM DEBT PAYABLE AT MARCH 31, 2008	<u><u>\$ 65,575</u></u>
Due Within One Year	<u><u>\$ 11,951</u></u>

Debt payable at March 31, 2008, consisted of the following:

Fire Truck Contract	
\$117,820 Payable to Old National due in annual installments of \$15,000 through January 30, 2013, plus interest at 4.65%	<u><u>\$ 65,575</u></u>

The annual requirements to amortize debt outstanding as of March 31, 2008, including interest of \$9,425 are as follows:

<u>Year Ending March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 11,951	\$ 3,049	\$ 15,000
2010	12,506	2,494	15,000
2011	13,088	1,912	15,000
2012	13,697	1,303	15,000
2013	<u>14,333</u>	<u>667</u>	<u>15,000</u>
Total	<u><u>\$ 65,575</u></u>	<u><u>\$ 9,425</u></u>	<u><u>\$ 75,000</u></u>

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

F. Fund Balance Reserves

In order to comply with generally accepted accounting principles and meet certain legal requirements, the Township has reserved fund balances in various funds. These reserves are detailed in the following schedule:

FUND BALANCE/NET ASSETS

Reserved

Special Revenue Funds

Road Fund

Road Maintenance

\$104,437

Fire Fund

Fire Protection

72,773

G. Sale of Future Revenues

For several years, the Township has sold its rights to delinquent real property tax revenues and related late payment penalties to the Alcona County treasurer. For the 2007 tax roll the Township will receive a lump sum payment of \$2,728 for general operating tax revenues, \$8,951 for road maintenance tax revenues, and \$4,392 for fire operating tax revenues. In exchange for these payments, the county is allowed to keep the delinquent taxes collected plus the late payment penalties charged. If the county is ultimately unable to collect any of these delinquent taxes, the Township will have to repay the county.

IV. OTHER INFORMATION

A. Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, workers compensation insurance and errors and omissions insurance. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

The Township continues to carry insurance for other risks of loss, including fidelity bonds and worker's compensation insurance.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

B. Retirement Plan

The Township has a defined contribution pension plan with Traveler's Insurance, Inc. which covers Township employees who have satisfied the eligibility requirements. Each employee becomes eligible for coverage on the first policy anniversary date which the employee reaches age 18. Each employee is 100% vested upon entering the plan. An employee's normal retirement age is age 65 or the 5th anniversary of the first day of the plan year in which participation in the plan commenced.

The formula for determining contributions is based on an employee's annual compensation. The Township has elected to contribute 6.2% of compensation to the plan annually. In addition, each eligible employee will contribute 6.2%.

Township contributions to the plan for 2007-2008 amounted to \$2,632.

For the 2007-2008 year, total covered payroll amounted to \$21,227 and total wages including non-covered payroll was \$42,451.

C. Property Tax Administration Fee

The Township passed a resolution to charge a 1% administration fee on all ad valorem, taxes levied. Also a late penalty fee of 3% shall be added after February 14th and shall terminate on the last day of February. The resolution is to continue in force and effect until revoked by the Township Board.

The Township has determined that authorized costs of tax collection will be repeatedly in excess of the revenue generated by the administration fee so that a restricted earnings account is not reflected in these statements.

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS
YEAR ENDED MARCH 31, 2008

	GENERAL FUND			ROAD FUND			FIRE FUND			BUDGET STABILIZATION FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
REVENUES												
Taxes	\$ 30,600	\$ 30,600	\$ 35,402	\$ 53,000	\$ 53,000	\$ 61,944	\$ 30,000	\$ 30,000	\$ 30,397	\$ 0	\$ 0	\$ 0
Licenses and Permits	300	300	620	0	0	0	0	0	0	0	0	0
Federal Grants	0	0	1,419	0	5,450	10,997	0	0	0	0	0	0
State Grants	62,900	62,900	75,205	0	0	0	0	0	0	0	0	0
Charges for Services	11,300	11,300	11,385	0	0	0	0	0	0	0	0	0
Interest and Rents	8,750	8,750	8,668	500	500	1,885	550	550	1,349	0	0	394
Other Revenues	2,500	2,500	8,883	0	0	0	0	0	0	0	0	0
Total Revenues	116,350	116,350	141,582	53,500	58,950	74,826	30,550	30,550	31,746	0	0	394
EXPENDITURES												
Legislative	31,605	36,465	25,361	0	0	0	0	0	0	0	0	0
General Government												
Supervisor	7,320	7,320	7,015	0	0	0	0	0	0	0	0	0
Elections	675	2,175	1,840	0	0	0	0	0	0	0	0	0
Assessor	10,725	10,725	8,878	0	0	0	0	0	0	0	0	0
Clerk	11,865	11,865	11,192	0	0	0	0	0	0	0	0	0
Treasurer	9,125	9,125	8,694	0	0	0	0	0	0	0	0	0
Building and Grounds	32,810	32,810	25,276	0	0	0	0	0	0	0	0	0
Cemetery	5,915	6,115	6,227	0	0	0	0	0	0	0	0	0
Public Safety												
Fire Department	46,375	46,375	35,684	0	0	0	15,000	15,000	15,456	0	0	0
Liquor Law Enforcement	900	900	780	0	0	0	0	0	0	0	0	0
Public Works												
Highways, Streets and Bridges	0	0	0	56,090	56,090	38,221	0	0	0	0	0	0
Street Lighting	3,900	3,900	3,399	0	0	0	0	0	0	0	0	0
Community and Economic Development												
Planning and Zoning	4,760	4,760	2,947	0	0	0	0	0	0	0	0	0
Recreation and Cultural												
Recreation and Parks	2,350	2,350	1,760	0	0	0	0	0	0	0	0	0
Other Functions	6,000	6,000	3,201	0	0	0	0	0	0	0	0	0
Total Expenditures	174,325	180,885	142,254	56,090	56,090	38,221	15,000	15,000	15,456	0	0	0
Excess (Deficiency) of Revenues												
Over Expenditures	(57,975)	(64,535)	(672)	(2,590)	2,860	36,605	15,550	15,550	16,290	0	0	394
OTHER FINANCING SOURCES (USES)												
Transfer In	0	0	394	0	0	0	0	0	0	0	0	0
Transfer Out	0	0	0	0	0	0	0	0	0	0	0	(394)
Total Other Financing Sources (Uses)	0	0	394	0	0	0	0	0	0	0	0	(394)
Net Change in Fund Balance	(57,975)	(64,535)	(278)	(2,590)	2,860	36,605	15,550	15,550	16,290	0	0	0
FUND BALANCE - Beginning of Year	90,000	90,000	110,595	59,420	59,420	67,832	50,900	50,900	56,483	10,000	10,000	0
FUND BALANCE - End of Year	\$ 32,025	\$ 25,465	\$ 110,317	\$ 56,830	\$ 62,280	\$ 104,437	\$ 66,450	\$ 66,450	\$ 72,773	\$ 10,000	\$ 10,000	\$ 0

MIKADO TOWNSHIP, ALCONA COUNTY
MIKADO, MICHIGAN

CURRENT TAX COLLECTION FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
YEAR ENDED MARCH 31, 2008

	BALANCE 4/1/2007	ADDITIONS	DEDUCTIONS	BALANCE 3/31/2008
<hr/>				
<u>ASSETS</u>				
Cash	\$ 78	\$ 743,258	\$ 743,215	\$ 121
<hr/>				
<u>LIABILITIES</u>				
Due to Other Funds	78	104,817	104,774	121
Due to Other Organizations and Individuals	0	344	344	0
Due to Other Governments	0	638,097	638,097	0
<hr/>				
Total Liabilities	\$ 78	\$ 743,258	\$ 743,215	\$ 121
<hr/>				

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601
PHONE: 231-775-9789 FAX: 231-775-9749
www.bcbcpa.com

November 5, 2008

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Township Board
Mikado Township
Alcona County
Mikado, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mikado Township for the year ended March 31, 2008, and have issued our report thereon dated November 5, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated April 12, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Mikado Township are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007-08. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. No material misstatements were noted.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 5, 2008.

Other Audit Findings or Issues

During the course of our audit of the basic financial statements of Mikado Township for the year ended March 31, 2008, we noted the following item which we feel deserves comment:

Budgeting

Pertaining to the Township's compliance with Public Act 621 of 1978, the following items are noted:

- (1) One activity in the General Fund exceeded the budgeted amount. In addition, expenditures in the Fire Fund exceeded budgeted amounts. The budget should always be amended prior to incurring expenditures in excess of budgeted amounts. Any amendments made should be approved by the Township board and recorded in the minutes.
- (2) The budgets adopted by the Township did not include the following financial information:
 - (a) The actual results from the prior year
 - (b) An estimate of the current year results

This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601
PHONE: 231-775-9789 FAX: 231-775-9749
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November 5, 2008

To the Township Board
Mikado Township
Alcona County
Mikado, Michigan

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mikado Township, Alcona County, Mikado, Michigan as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Mikado Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

1) Lack of Segregation of Duties

The relatively small number of people involved in the accounting functions of the Township and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

2) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the lack of segregation of duties described above is a material weakness.

This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.